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Cross-border Acquisitions and Firm Internationalisation:

The cases of Sogrape and Cotesi

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To my friends, for the support and presence in all times. A toast for what we already lived and for what we had to postpone.

<u>Cheers to all of you and to the strength you give me every day!</u>

And in the end, I wonder: *Was it worth it?*
As Fernando Pessoa would say, *"everything is worth it when the soul is not small"*.

"The Portuguese nation is, essentially, cosmopolitan.
Never has a true Portuguese been Portuguese:
He has always been everything"

Fernando Pessoa in *'Portugal Entre Passado e Futuro'*, 1888-1935

ABSTRACT

In a globalised world like today, new challenges are imposed on national companies and products. Internationalisation emerges as an imperative for the survival of organizations.

There is rich literature in the field of the cross-border acquisitions. However, it is focused on its pre- and post-acquisition process, taking a financial, accounting and human resource's perspectives. There is a gap in the study of cross-border acquisitions in an international business perspective.

Therefore, this multiple case study research will analyse the effect of cross-border acquisitions in the firm internationalisation of two Portuguese multinational firms, which have several years of existence.

In this way, the aim of this study is to realise how did these companies grew in the international arena through cycles of cross-border acquisitions, their organisational background, strategies adopted to the expansion of the brand and product to foreign markets and what was the role of the business networks.

In the end, it is possible to understand the effect of cross-border acquisitions in their internationalisation process and how did they strengthened their positions within their business networks, becoming world leading companies.

Keywords: mergers and acquisitions; internationalisation process; multiple case study research; Portugal; Cotesi; Sogrape.

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ABBREVIATIONS

BGs – Born Globals

BNs – Business Networks

FDI – Foreign Direct Investment

IB – International Business

M&As – Mergers & Acquisitions

MNEs – Multinational Enterprises

R&D – Research and Development

U-model – Uppsala Model

INTRODUCTION

Globalisation has been rising at a fast pace since the 1980s, making the world look smaller and the domestic market competition increase, due to the forces of international competition *(Cavusgil & Knight, 2015)*. It has been affecting trade, since companies began to internationalise their production, distribution and marketing, and the flows of capital and investment substantially increased *(Hnát, 2008)*. With the domestic market losing importance, the focus and strategy of companies began to be the global market, betting on exports and in the pursuit of investment opportunities.

Overall, IB scholars agree that internationalisation is the process by which firms expand their business activities beyond the borders of their own countries.

There are several ways that a firm can internationalise its activities, entering a foreign market, but this study will focus on cross-border acquisitions.

According to *Shimizu et al. (2004)*, cross-border acquisitions are those involving *"an acquirer firm and a target firm whose headquarters are located in different countries"*. They are an important corporate strategy for companies that desire to extend their business to new markets, stretch their capabilities and diversify into related markets *(Wang & Xie, 2009)*.

Cross-border acquisitions shaped the world as we know it today. Scholars identified six waves of M&As, which do not have a conclusive theory yet. However, they have been caused by combination of economic, regulatory and technological changes, driving companies to consider M&A to preserve their competitive position in the market *(Cordeiro, 2014)*.

According to *Andrade & Stafford (2004)*, the driver behind the fifth wave was industry expansion (growth), resulting in increased globalisation and cross-border acquisitions.

In this way, it was during the fifth wave *(DePhamphlis, 2001)*, started in the early 1990s, that cross-border acquisitions took the leading choice of companies' entry mode in foreign markets. It was considered the fastest way of organic growth, but it was soon discovered that cross-border acquisitions also bring countless challenges and obstacles to overcome.

Until now, the main debate among experts was from a financial perspective, concerning with the acquisition performance, or from a human resource's perspective, concerning with the integration of the acquired company and the possible organisational cultural clashes.

This research will be centred on answering to the question: *"How will cross-border acquisitions influence a firm's internationalisation process?"*

For this purpose, this dissertation is structured in four parts. In a first part – Literature Review –, it will be exposed and reviewed the existing literature in the research field of this dissertation, referring to key concepts, theories and models. The topics related to the object of study include a firm's internationalisation process and cross-border acquisitions to generate a more focused view on the research question.

A second part – Research Methods –, in which it provides the ethical conduct followed by the author and describes and justifies the chosen methodology to conduct the study, presenting the data collection methods and the techniques to analyse it.

A third part – The case studies –, that presents the empirical results obtained from the interviews, which are interpreted and analysed. Furthermore, the companies are described, as well as their internationalisation and cross-border acquisition processes, analysing the pre- and post-acquisition phases separately.

A fourth part – Discussion –, that supported by the previous chapter will compare the results of the case studies with the existing literature findings. The aim of this chapter is to realise if there are any findings that are not present in the existing literature already.

Finally, the fifth part – Conclusions and Limitations –, that presents the key findings and conclusions of this research, some study limitations and possible future research questions.

Chapter 1:

Literature Review

1. Firm Internationalisation

1.1. The Internationalisation Process

It is agreed among international business researchers that firms' internationalisation is a process in which firms gradually increase their international involvement *(Johanson & Vahlne, 1977, p.23)*. For Beamish (1990, p.77) internationalisation is "*the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries"*. More recently, Mathews (2006) argued that internationalisation *"is the multiple connections of the global economy which draw firms into involvement across national borders, through contracting, licensing or other transaction relationships"*. Overall, IB researchers agree that the internationalisation is the process by which companies expand their businesses beyond the borders of their own countries.

In the 1950s, 60s and 70s, the exports grew much stronger than FDI. However, since the 1980s, this has changed, where 16.3% FDI growth substantially exceeded the 6.2% export growth per year *(Hillebrandt & Welfens, 1998)*. FDI plays a pivotal role on MNEs and on their involvement on the international activities. *"We define MNEs as companies which undertake productive activities outside the country in which they are incorporated" (Dunning, 1977, p.400).*

In fact, in the contemporary world, businesses may start their operations domestically, but already outlining a long-term strategy to go international. Internationalisation changed drastically the landscape for most businesses and raised fierce competition for the companies.

Many businesses were driven to become more globally integrated primarily due to external forces. However, firms less affected by globalisation restructured their businesses, since they recognised that by doing so, they could gain significant competitive advantage compared to foreign ones, pursuing profits in the global market *(Ethier, 1986)*.

To exploit opportunities beyond their national borders, local companies started to standardise their products, being more than locally responsive. While the traditional multinational companies managed their subsidiaries as unique and independent from the others, in the 1980s and 90s, the major problem was the coordination and configuration of the subsidiaries, as MNEs entered new markets *(Gong, 2013)*.

1.1.1. Why internationalise?

The Eclectic Paradigm began to be a framework to explain the companies' FDI decisions *(Dunning, 1988)*, but later the author added the possible motives for that decisions. Companies have different *raison d'être* for their FDI decisions. *Dunning (2000)* identified different motivations for companies to internationalise their primarily productive activities.

The earliest motivation was resource seeking, driving companies to invest abroad; it represents the companies' need to secure resources that were not available in home-country or were cheaper in foreign countries, guaranteeing the stability of supply and to access low-cost factors of production. By 1850, many companies had already crossed the Atlantic, looking for new markets, arising the market seeking motivation; it is typical in companies that have some intrinsic advantage, which gave them competitive advantage in offshore markets. Efficiency seeking, where companies' FDI decisions are designed to promote a more efficient division of labour, rationalising production and better distribute the structure of the MNE; and, finally, strategic asset seeking, that arises from the foreign investors seeking distinctive and specific knowledge, administrative or reputational resources available overseas. These intangible assets may only be acquired through joint-ventures, international takeovers, etc.

Later, other IB scholars *(Bartlett, Ghoshal & Birkinshaw, 2004)* divided the motivations for internationalisation in traditional and emerging motivations:

Competitive Positioning: presence in key-markets where competitors operate. It can be a strategy to anticipate the presence in markets that will interest competitors or an attempt to 'play the global chess', increasing competitive pressure on competitors.

Strategic asset seeking was replaced by:

Global scanning and learning: it is a motivation that arises by the need of augment or protect specific advantages of a company, that do not exist in home-country. Often associated with long-term strategies, companies can act through the acquisition of firms holding the strategic assets; acquisition of expertise in R&D or others forms of knowledge; or even through the acquisition of market information.

Traditional Motivations	Emerging Motivations
Resource Seeking	Competitive Positioning
Market Seeking	Global Scanning and Learning
Efficiency Seeking	
Strategic Asset Seeking	

Figure 1 – Internationalisation Motives

Source: Adapted from Dunning (2000)

1.1.2. Where will the company go?

1.1.2.1. Uppsala Model

Many IB researchers agree that companies' internationalisation is a gradual process of international involvement. The best-known model was developed by two Swedish academics, who described foreign market entry as a learning process. The Uppsala Model defends that internationalisation is a gradual process, that starts with a small investment to get market knowledge; and just after several cycles of investment, the company develops the necessary levels of local capability and market knowledge to be an effective competitor in the foreign country *(Johanson & Vahlne, 1977, p.23)*.

In this way, the U-model is adopted by small companies with little or no international experience and knowledge about the markets, that seek, progressively and at the lowest risk, international experience and growth of their businesses.

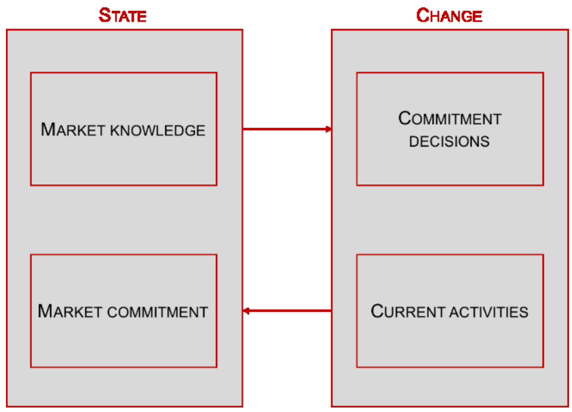

Figure 2 – Original Uppsala Model

Source: Johanson & Vahlne (1977)

Attached to this model is the concept of psychic distance, which appeared for the first time in 1912, applied to the arts *(Bullough, 1912)*. However, more than a century later, this concept is transverse to other fields, being IB one of them. *Nordstrom* and *Vahlne (1992)* described psychic distance as *"factors preventing or disturbing the flow of information between potential or actual suppliers and customers"* – whose factors were grouped into four areas, such as linguistic differences and translation difficulties, cultural factors, economic situation and political and legal systems.

Although the concept was already fully formed, it was the study of *Johanson* and *Vahlne (1977)* and the U-model that gave psychic distance the pivotal role in the internationalisation process of firms. The studies of these researchers suggested that companies would internationalise to psychologically proximate countries – with some firm-specific advantage in the foreign market (liability of foreignness) – and further international expansion would be gradually done to countries with greater psychological distance. In other words, it says that the difficulty and cost of obtaining information about foreign markets is proportional to the psychic distance between the countries *(Håkanson, 2014)*.

1.1.3. How will the company internationalise?

1.1.3.1. Modes of entry

Following a gradual rhythm of internationalisation, *Johanson* and *Vahlne (1976; 1977)* distinguished the steps a company should take to commit to a particular market – the establishment chain:

- Sporadic exports
- Exports through a sales representative
- Licensing and franchise agreements
- Joint-ventures with local partners
- Exports through sales subsidiaries
- Wholly-owned subsidiaries

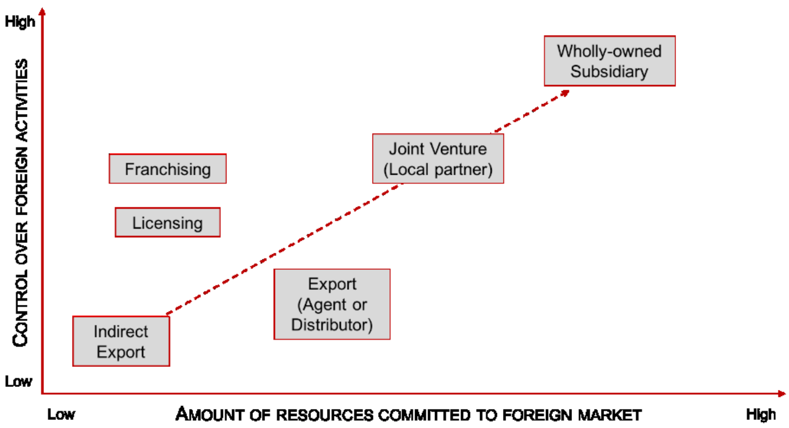

Figure 3 – Establishment chain

Source: Johanson & Vahlne (1977)

Later studies from these researchers *(Johanson & Vahlne, 1990)* placed the hypotheses of skipping some steps if:

- The firms have access to a large pool of resources;
- The market conditions are stable and homogeneous, and relevant knowledge can be acquired without direct experience;
- The firm has experience in other markets with similar conditions.

1.1.4. Limitations of U-Model

The U-Model had greatly contributed to the IB literature, broadening the understanding of the internationalisation process; however, it has some limitations, since it does not consider the drastic changes that business environment suffered in these last decades.

Globalisation changed completely the businesses environment, creating both opportunities and challenges in the field of international businesses, and the rapid technology development allowed companies to respond faster and better to the markets than before. In this way, the U-model shows a handicap, being incapable of describing the internationalisation process of the modern businesses.

Moreover, it is a model that analyses individual companies and not companies as actors in their business networks *(Madsen et al., 1997)*. The changes should be understood in an inter-organisational context, considering the networks across borders, since there are differences between countries and products' international extension, coordination and integration.

1.2. Business Networks

''Industrial markets are characterised by stability instead of change, long-lasting relationships instead of short business transactions and closeness instead of distance'' (Håkansson, 1982, p.6).

In this way, many scholars describe the industrial markets as networks of relationships between companies *(Johanson & Mattsson, 1988)*.

Later, 'network' is defined as the set of interrelated relationships between companies *(Håkansson & Johanson, 1992, 1993)*. The constituent elements of the network are the actors, the activities and the resources, which are related among them throughout the network structure *(Håkansson, 1982)*. Therefore, there are exchanges of resources between the actors and activities within a business network. *Sharma (1993)* states that the network includes the exchange of resources between its different members (suppliers, customers, competitors, distributors, etc.), allowing companies to use the network to develop relationships that allow access to resources and sell their products and services *(Johanson & Mattsson, 1988)*.

1.2.1. Internationalisation of the BNs

BNs draw attention for the companies' internationalisation process as a result from its position and relationships. The existing relations within the network work as bridges to external markets and allow the identification and exploration of business opportunities, motivating the internalisation of companies *(Johanson & Vahlne, 2009)*. For instance, a company positioned within a foreign network will be in contact with foreign actors.

There are four ways that a business network can internationalise, according to *Johanson and Mattsson (1986, 1988)*.

INTERNATIONALISATION DEGREE	LOW DEGREE OF MARKET INTERNATIONALISATION	HIGH DEGREE OF MARKET INTERNATIONALISATION
HIGH DEGREE OF FIRM'S INTERNATIONALISATION	**The Lonely International**	**The International Among Others**
LOW DEGREE OF FIRM'S INTERNATIONALISATION	**The Early Starter**	**The Late Starter**

Figure 4 – Internationalisation of Business Networks

Source: Johanson & Mattsson (1986,1988)

1. **The Early Starter:** companies have little or no international experience in a little internationalised market. At this stage, companies have weak ties with foreign networks, since there is a lack of experiential knowledge in the market. The size of the company and the scale and scope of its operations will determine the mode of entry into the foreign market. Always aware that the knowledge of other actors within the network influences the decision-making of the company, it can enter the market from the initiative of a local distributor (market penetration strategy).
2. **The Late Starter:** like before, the late starter has a low degree of internationalisation, however, it is positioned in a highly-internationalised market. In this way, the firm has little or no experience in international

markets and few direct international relationships. However, it would be in a more advantageous position in relation to the early starter, since it resides in a more internationalised network, enjoying its experiential knowledge and the possibility of cultivating stronger relationships (extension strategy).

3. **The Lonely International:** although actors are positioned in an internationally inexperienced network, they are more committed to the internationalisation process, increasing the level of experience knowledge, when compared to the previous ones. Being pioneers in markets that have little or no external competition, companies obtain their experiential knowledge in first-hand. However, at this stage, international knowledge to manage and coordinate the operations and relationships was not yet acquired. Usually results in entry modes in the area of investment (market penetration strategy).
4. **The International Among Others:** companies enjoy a high degree of internationalisation, having a vast international experience and establishing and developing positions in the foreign market. *"The diversity of environments in which a firm operates may be a 'key asset of the multinational firm' since it provides the firm with a superior knowledge base" (Ghoshal, 1987:431, as cited in Madhok, 1997:42)*. This knowledge base arises from the acquired skills of particular markets and from *"the greater interdependency of an internationalised network" (Hadley & Wilson, 2003)*. At this stage, companies have already the capacity and the need to integrate and coordinate market positions in a highly-internationalised context, sustaining and improving their positions. The chosen entry modes are usually joint-ventures, mergers and acquisitions or divestment (market integration strategy).

BNs refer to companies in the industrial markets that establish and develop symbiotic business relationships throughout the network structure with other companies. Networking enhances competitive advantage and, according to *Bachmann (1998)*, belonging to a network allows for mutual flexibility, joint use of technical and economic knowledge and collective assumption of costs and risks.

1.2.2. Revised U-Model

Nowadays, markets are a network of relationships between companies. Companies do not compete at individual level, but rather at the network level, *"including domestic or foreign suppliers and customers, as well as their customers and their suppliers" (Johanson & Mattsson, 1988)*. With the increasing globalism and fast development of information and communication technologies, the choice of the country and entry mode of a company is affected by the network and its position within it *(Coviello & Munro, 1995, 1997; Martin, Swamminathan & Mitchel, 1998; Ellis, 2000)*.

In this way, the network approach, that brought changes to the business landscape, was included in the last version of U-model *(Johanson & Vahlne, 2009)*:

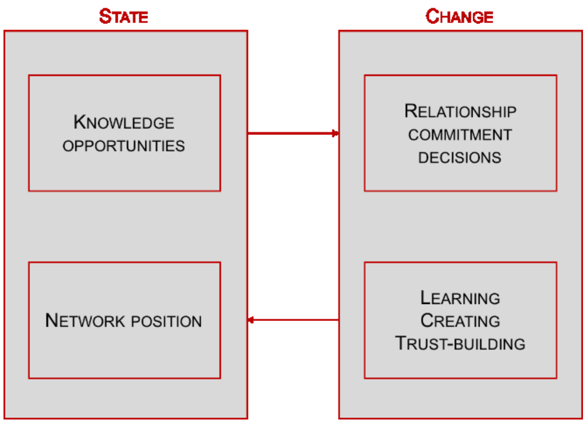

Figure 5 – Revised Uppsala Model

Source: Johanson & Vahlne (2009)

Market knowledge – Knowledge Opportunities: as an insider of a network, the company has access to its knowledge. In the context of its network, the company can recognise and exploit opportunities, that outsiders cannot.

Market commitment – Network position: the company's internationalisation process takes place within the network; therefore, the addition of 'network position' to the model was crucial. Since 'market commitment' is too narrow, the company's relations were included in the revised model. The knowledge, trust and commitment of the firm in the context of its position in the network is more important than the size and flexibility of its investment in the market.

Commitment decisions – Relationship commitment decisions: the word 'relationship' was added in the revised model to enhance the company's decision of further commitment in relationships within a specific country. In the context of relationships and networks, commitment is psychological; however, it is visible in terms of investment and organisational change and, more importantly, it is necessary to create mutual trust.

Current activities – Learning, creating and trust-building: current activities are still crucial, but the revised model place more focus on the outcome of that activities. Experiential learning is present in both model's versions and it is still the most important one; but, more learning forms and emotional elements were added to the last version, such as intellectual as well as social capital. Trust-building is fundamental in the last version, since it includes the network perspective.

There are other changes from the original to the revised U-model.

- The psychic distance is now related with relationships and opportunities, liability of outsidership, rather than related with countries, liability of foreignness;
- The revised model can explain large firms, since experience is more important than the size to acquire contextual knowledge;
- It enhances the relationships of the firm as ownership advantage, rather than location as source of uncertainty;
- The revised model is symmetric, since it describes the internationalisation of a firm's value chain, both up and downstream;
- It applies to firms with and without production.

1.3. Born Globals

According to *Knight* and *Cavusgil (2004, p.124)* born globals are *"business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries"*. So, they are new firms with limited foreign business and experiential knowledge and suffer from liability of newness.

The fast pace of technological developments in communication and production and the relentless competition of the global market forces companies to search innovativeness and to differentiate their products to not perish among competitors.

Indeed, one of their main features is the capability to enter the international markets due to their *"unique entrepreneurial competences and outlook" (Knight & Cavusgil 2004, p.129)*. Scholars believe that the education, vision and previous international experience of the entrepreneur are crucial for these young companies with limited knowledge, seeking for risky and complex markets *(Madsen & Servais, 1997; Mathews & Zander, 2007; Zander et al., 2015)*. Moreover, the marketing orientation is also a very important factor to target and create value to foreign customers, maximising the company's international performance.

To overcome the liability of newness, born globals must develop technological knowledge to obtain competitive advantage over the foreign competitors, in terms of creation of superior products, with better effectiveness and efficiency in their production processes. In this way, *"knowledge should be relatively unique and inimitable to maximize its utility for superior international performance" (Knight & Cavusgil 2004, p.136)*. One way of accelerating this learning process is to collaborate with foreign distributors and profit with their local knowledge to *"respond rapidly to evolving customer needs, competitor actions, and shifting environmental contingencies" (Knight & Cavusgil, 2004, p.132)*.

Overall, *"innovation, R&D, knowledge development and capabilities leveraging" (Knight & Cavusgil, 2004, p.137)* within born global firms are critical to their positioning and international success.

There are agreed specific characteristics of born globals:

- There is a bigger incidence of born globals in nations with small internal markets;
- Usually, they are companies that internationalise within 2 years of their inception *(Rennie, 1993)*;
- Organisational capabilities, especially international experience, vision, commitment, innovativeness and entrepreneurial orientation;
- Strong market orientation, international marketing capabilities and adaptability to constant-changing conditions abroad;
- High-value offerings of innovative and high-quality product that fit the customers need and wants, pursuing global niche markets;
- More likely to be found in industries characterised by fast growth, high knowledge intensity and global interconnectedness;
- Founders/Senior Leadership are responding to an internationalization premium that is made possible by lower costs and ubiquity of information, networking with and learning from international partners and efficient logistics.

1.3.1. U-Model vs. Born Globals

A comparison between the U-model and Born Globals is important to be done to realise the differences between the theories and the changes they both brought to international studies and knowledge.

The U-model describes a slow process, concerned with the market uncertainty, low risk-taking and incremental acquisition of knowledge; these features are also true for born global firms. Yet, the main difference is born globals' lack of routines to internationalise due to the founders and employees' previous international experience, which lowers the perceived uncertainty of the foreign markets. Their characteristics, capabilities and knowledge about the foreign environment accelerate the commitment of businesses, opposed to the slow and incremental commitment of the U-model.

Speed of internationalisation. The traditional perspective requires experiential knowledge; thereby, the internationalisation process is slow and incremental, involving many people along the way and many years to acquire experience. Born global firms aim the international markets, so they are characterised by a rapid internationalisation of their activities. There are two main explanations. First, the vision of the top management and workers and their international knowledge, that facilitates and increases the speed of learning and internationalisation; second, their innovative capabilities of communication technologies help these firms to develop strategies and maintain relationships.
Home market. In the traditional model, to support internationalisation, businesses must have a strong domestic market. The foreign market is considered a source of risk and uncertainty. For the born globals, the domestic market is less important, since they aim to internationalise their operations from or near to their inception; usually, is small or non-existent. They see the foreign market as a source of opportunities. They do not restrict their operations to a single country, but to the world, as they perceive it as one market.
Psychic Distance. U-model give the first steps internationalising to psychologically proximate countries, where they perceive lower risk and uncertainty due to the similarities between home- and host-country. In the contemporary perspective, psychic distance could be important in a first phase of internationalisation. But as fast as born globals internationalise to psychologically near countries, they also move quickly to distant countries, giving less importance to psychic distance.
Firm's Strategy. Strategic decisions are not central as a motivation to internationalise in the U-model. While BGs, strategic decisions are crucial to determine the rhythm and focus of internationalisation, to face the competitors and occupy leading positions in niche markets.
Importance of Networks. This is an important feature in both models. However, the U-model uses the network only in the early stages of the internationalisation process, making use of its knowledge-base and commitment, being later replaced by the firm's own resources. For BGs, the network is a source of a vast

international knowledge, that allows extensive global reach, fast creation and multiple market exposure.

Figure 6 compares the characteristics of the U-Model and the Born Global Theory and analyse their differences.

	U-Model	Born Globals
Firm Characteristics	Old firms, with mostly large size	Young firms with small size, an hybrid structure and limited tangible assets
Business Strategy	Not referred in the model	Offer innovative products, with high quality and performance, that are cost effective to niche markets
Approach to internationalisation	Reactive and opportunistic	Proactive and structured
Speed of internationalisation	Slow and incremental	Rapid internationalisation
Domestic market	Strong domestic base before internationalisation	Not important; small or inexistent
Psychic Distance	Internationalisation to close psychic distance countries	Psychic distance is not a constraint for internationalisation
Reasons to internationalise	Domestic downturns and seek more solid market platform	Grow and exploit international markets opportunities to increase global market share and profits
Market advantage	Various years of operations	Strong knowledge-base and technology competence
Vision of foreign market	Foreign markets are seen as involving risk and uncertainty, which the company tries to keep it at the lowest level	Foreign markets are seen as an opportunity
International knowledge and experience	Expertise in internationalisation can only be acquired with experience, involving many people	Entrepreneur is crucial in the internationalisation process, detaining international experience and knowledge of foreign markets
Market commitment decisions	Gradual acquisition, integration and use of knowledge. Due to market uncertainty, market commitment is made in small steps	Entrepreneur has experiential knowledge about foreign markets, so market commitments are faster to make
Role of Networks	Networks are used in early stages and are gradually replaced with firm's own resources	Networks are crucial for the firm expansion, rapid creation and different markets exposure

Figure 6 – Uppsala Model vs. Born Globals

Source: Adaptation of Pereira, M. C. (2015)

2. Cross-border Acquisitions

Cross-border acquisitions are referred in the literature as *"one of the fastest ways to enter a foreign market" (Alba et al., 2009).*

A simple acquisition involves at least two companies; it *"is the purchase by one company (the acquirer) of a substantial part of the assets or securities of another (target company)" (Krishnamurti & Vishwanath, 2008).* Cross-border acquisitions are those involving *"an acquirer firm and a target firm whose headquarters are located in different home countries" (Shimizu et al., 2004).*

Since the late 1800, M&As are considered a tool to the rapid expansion and growth of a business, which has been evolving throughout history. Usually, the literature refers to the five M&As waves starting from 1897 until 2000. However, it is important to refer the not-often-recognised sixth wave *(Alexandridis et al., 2012).*

Figure 7 shows the six waves of M&As founded in the literature *(DePhamphlis, 2001; Alexandridis et al., 2012; Martinson & Edgren, 2012),* but only the last two waves have relevance for this study.

Wave	Historical Consolidation	Increasing Consolidation	Conglomerate Era	The Dumping Decade	The Era of Mega-Mergers	Synchronising World Economies
Years	1897 – 1904	1916 – 1929	1965 – 1969	1981 – 1989	1992 – 2000	2003 – 2008
M&As' outcomes	• Creation of monopolies – Industrial giants	• Creation of oligopolies	• Diversification • Conglomerate building	• Bust-up takeovers	• Globalisation	• Horizontal mega-mergers • Cross-border transactions
Beginning of wave	• Economic expansion • New laws on corporations • Technological innovation	• Economic recovery – post-war boom • Better enforcement of antitrust laws	• Strengthening laws on anti-competitive M&As • Economic recovery after WWII	• Deregulation of financial sector • Economic recovery	• Strong economic growth • Deregulation • Global trend of privatisation • Rise in cross-border deals • Reduction in trade barriers • IT revolution	• Economic recovery from the dot.com bubble burst • Low interest rates
End of wave	• Stock market crash, 1904	• The Great Depression, 1929	• Market crash due to an oil crisis	• Stock market crash • Slowing economies, demise of junk bond finance	• Burst of the Internet bubble • 9/11 terrorist attack	• Recession caused by the sub-prime bubble burst

Figure 7 – Waves of M&As

Source: Adapted from Nouwen, T. J. A. (2011)

Fifth Wave. This was the first truly international wave. The world was globalised and suddenly, a large pool of markets, such as China and India were opening-up. Soon, companies realised that would have to be big to face the competition of these new markets. Therefore, the 90s welcomed the world with mega-mergers, showing the global firms' greed to achieve greater economies of scale. Companies saw in cross-border acquisitions the opportunity to enter new markets and to establish a dominant position in an international or global scale. It came-up with a huge hype, but was shortly over, due to scandals, involving bankruptcy of well-known names, such as WorldCom and Enron.
Sixth Wave. It started after the recovery from the recession of 2001, due to the stimulus given by the US Federal Reserve, which kept interest rates low to stimulate the economy. The low interest rates boosted the rise of Private Equity Funds and the stock market was booming, which provided a favourable environment for M&A transactions. At this stage, globalisation became a key-concept in the business world and even the large and well-established companies felt the need to expand their operations to reach global markets. Signs of the fifth wave is still strongly visible in the sixth wave, but with larger benefits, since the government was more readily available and private equity funds were a great help. However, it all ended with the sub-prime crisis in the US, leading the world into a big recession once again.

Cross-border acquisitions are characterised by their high valuation, deep pockets, cash payment and hostile deals, which create a complex and, sometimes, long process between the two companies *(Hopkins, 1999; Moeller & Schlingemann, 2005)*. This is the reason why the decision of doing an acquisition should be done with some precautions and intense planning, so that it can be considered a success when implemented *(Papadakis, 2007)*. According to *Gomes et al. (2013, p.16)*, *"of key importance is the ability of firms to manage the transition from pre-acquisition to post-acquisition phase"*.

2.1. Motives of M&As

Throughout history the M&As landscape has changed and globalisation brought new corporate challenges *(Cartwright, 1998)*, due to cultural and geographic distances, governance differences, currency, compensation policies and legal formalities *(Erel et al., 2012; Rottig, 2007)*.

According to *Napier et al. (1989)*, there are two motives to acquire: the financial motives, that maximise the businesses' value, and non-financial, that is a non-maximising value strategy. However, *Brouthers, Van Hastenburg & Van der Ven (1998)* suggested three categories of motives to acquire:

Economic Motives	Personal Motives	Strategic Motives
• Increase profitability • Tax efficiency • Risk-spreading • Create shareholder value • Economies of scale • Economies of scope • Cost reduction	• Personal ambition • Managerial hubris • Enhance managerial prestige • Increase remuneration through increased sales or profitability • Bandwagon effect/mimetic behaviour	• Extension in a new geographic market • Develop capabilities • Stretch capabilities • Pursuit of market power • Increase bargaining power against suppliers • Acquisition of a competitor • Create barriers to enter an industry • Access to new technologies

Figure 8 – Motives to merge or acquire a company

Sources: Brouthers et al., 1998; Johnson et al., 2011; Gomes et al., 2011

The motives of cross-border acquisitions were once to improve companies' competitive position, introduce new brands, spread the financial risk and achieve economies of scale. Nowadays, the most relevant motives behind an acquisition are market share growth and synergies, followed by competence-based, diversification and financial synergies *(Gammelgaard, 2004)*.

Despite all the over-optimism of managers, the rate of acquisitions' failure is around 50-75% *(Swerdlow et al., 2001; Papadakis, 2005; Sirower, 1997)*. There have been some M&As with high expectations for a brilliant future that ended up labelled has catastrophic failures. The weakest point on M&As is the integration phase, where many companies still stumble.

Having in mind that there is no 'one-size-fits-all' solution, past research points some reasons for failure, since poor planning and choices during negotiations (pre-acquisition phase) to poor communication and integration, due to cultural clashes or inability to reach synergies (post-acquisition phase) *(Gomes et al., 2013)*.

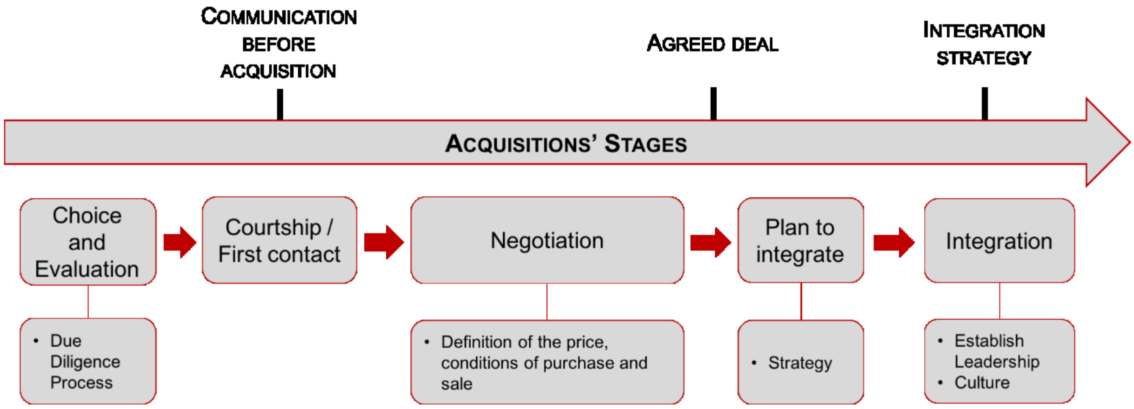

Figure 9 – Pre- and Post-Acquisition Phases

2.2. *Pre-acquisition phase*

Before the acquisition, it should be conducted a 'due diligence' and partner analyses to make sure that the M&A is the right choice. To conduct these analyses, it was developed matrices that were firstly focused on the businesses 'fit' with their external environments, being in an attractive/unattractive position. Later, it was developed the Parenting Matrix *(Goold et al., 1994)*, focusing on the 'fit' between the capabilities of the parent company and the acquisition target to avoid the potential problem of identifying an attractive target but to miss on building synergies. This matrix, more than focus on the capabilities fit, it also analyses the potential internal synergies between the parties and what the target needs to do to achieve external advantage. The negotiation is crucial, where the premiums are defined, as well as the plan to the post-acquisition phase. At this time, the parties can never lose focus on the strategy and vision, in order to avoid difficulties in post-acquisition integration. Over-optimism in the M&A potential resources or integration, incorrect evaluation of 'black holes' or overpayment are deadly mistakes that compromise a M&A from the beginning.

2.3. Post-acquisition phase

According to *Malekzadeh and Nahavandi (1998, p.125)*, *"acquiring another firm is the easy part; the hard part is managing the long-term process of acculturation of two firms across national border"*.

After the acquisition is usually when the problems began to arise. The leadership should be quickly established; here, the decision is if the top management should stay or leave, bringing an outsider. While keeping the top management (insider) has the advantages of maintaining the culture and retain specific and valuable knowledge, providing leadership continuity and possibility to change things fast; it has also disadvantages, since it can constitute an obstacle to change. Bringing an outsider can provide new and more open approaches and be more objective in the tasks to be done; however, it outsider has a lack of understanding of company's culture and can take longer to implement the expected goals. Either way, communication is a critical part of this process, especially in managing cultural integration, avoiding cultural clashes. Middle managers should be included throughout this process to feel part of this change and to be the voice of blue collars *(Angwin, 2012)*.

There are studies discussing various integration typologies, in which the majority examine cultural cohesion and differences (*Nahavandi & Malekzadeh, 1988; Cartwright & Cooper, 1992)*, rather than organisational change. Later *Haspeslagh* and *Jemison (1991)* founded four integration strategies, based on a resource-based perspective on the transfer of capabilities between both the parent and the acquired firms, creating value and protecting *"the acquired company from organisational integration into the parent firm" (Angwin, 2012)*.

		Strategic Interdependence	
		Low	High
Need for Organisational Autonomy	High	Preservation	Symbiosis
	Low	Holding	Absorption

		Acquired Company Strategic Independence	
		Low	High
Capability Interaction	High	Subjugate	Collaborate
	Low	Isolate	Maintain

Figure 10 – Integration Strategies

Source: Haspeslagh & Jemison (1991)

If the cross-border acquisition respects and follows the stages of the process, giving as much attention to the due diligence and negotiation, as to the integration of the company, the acquisition may be considered a success in the future. The parent company becomes more powerful, internationalised and with valuable resources, skills and/or technology, improving its performance and sustaining its long-term strategy.

3. Firm Internationalisation & Cross-border Acquisitions

As the world is changing, including the economic, technological and social conditions, so are the businesses. With the rapid advancements in communications and transport, the world is more interconnected than ever. For businesses, it means that costs are reduced and businesses to distant countries are done at a lower cost than before. Moreover, the growing numbers of internationalised executives create the opportunity for a business to rise faster.

According to *Kumar (2008)*, the motivations for cross-border acquisitions shifted from market-seeking strategies, used during the 1970s and 80s, to strategic asset-seeking strategies recently, such as technology, recognised brands, access to new customers and worldwide distribution channels.

Cross-border acquisitions are a fast way to access new markets, customers, new brands or distribution channels.

To connect the various concepts and theories with the key research question – how do cross-border acquisitions influence the firm internationalisation – a model was built to present the factors that have, according to the reviewed literature, a determining role in the firms' internationalisation process.

Nonetheless, it is essential to understand how each of these elements interact and effect the process. It was possible to connect the identified factors with both topics.

For instance, the motives, business network internationalization and the process of acquisition are deeply related with the features of cross-border acquisitions; while leadership and vision, competitive advantage and strategy are in closer relation with firm internationalisation.

Cross-border Acquisitions	Internationalisation

• Motives for Cross-border Acquisitions
• Business Network Internationalisation
• Careful Process of Acquisition
  o Pre-acquisition Phase
  o Post-acquisition Phase
	• Leadership and Vision
	• Competitive Advantage
	• Strategy

Figure 11 – A priori theoretical framework

Chapter 2:

Research Methods

1. Research Strategy

The key research question of this study is how cross-border acquisitions influence firm internationalisation and to answer it, it will be used the case study research approach.

Yin (2009) argues that the case study research is a method that is chosen when the phenomenon under study is not distinguished from its context and in which multiple sources of evidence are used.

According to *Creswell (2013)*, the *"case study research involves the study of an issue explored through one or more cases within a bounded system (a setting, a context)"*. This research will use multiple case study, where the inquirer selects more than one case, showing different perspectives on the illustrated issue. *Yin (2003)* suggests that multiple case studies use a logic of replication of the procedures for each case. However, as general rule, qualitative researchers are hesitant to generalise from one case to another, since the contexts differ *(Baxter & Jack, 2008)*.

The investigation, for purposes, can be classified as:

- Exploratory, in which concepts are explored, describes experiences, the cultural system from the point of view of the organisation;
- Descriptive, in which phenomena are explored and described, in this case the internationalisation process through cross-border acquisitions, the characteristics of the company and its relations with business partners in the international market.

Indeed, *Gomez et al. (1996, p.99)*, state that the overall objective of a case study is to "*explore, describe, explain, evaluate and/or transform*".

Whatever the type of scientific study, be it a quantitative study or a qualitative study, the concept of reliability in this context is related to the possibility of reapplying the conclusions reached, with the possibility of several researchers can arrive at similar results on the same phenomenon studied using the same instruments. In fact, it is a matter of assessing whether the data collected in the research are stable over time and have internal consistency, especially if they come from a variety of sources.

In a quantitative study the reliability requirement is easily achievable. In a case study, reliability assurance becomes more difficult to achieve, because the investigator is the primary, and often only 'instrument' of the study, since the 'case' itself cannot be replicated or rebuilt. However, the question of reliability cannot be ignored if the case study is to be recognised as having relevance and value. However, the methodology used in this exploratory study was qualitative in nature.

This project was developed in two Portuguese companies, Sogrape and Cotesi, through a multiple case study research, proposing to observe their characteristics, analyse their mode of operation within the business networks, their internationalisation process and the measures adopted for their growth and survival in the international market, especially through cross-border acquisitions, that due to business globalisation, has become a hot topic in the IB literature.

2. Data Collection

In the process of data collection, the case study uses several techniques of qualitative research, namely, observation and the interviews. However, it was also used quantitative methods; exploratory questionnaires to find general characteristics, test theories and hypotheses and possibly produce new theory and statistics of world trade and FDI to support this study.

According to *Bourdieu et al. (1968, p.72)*, "*the questionnaire presupposes a whole set of exclusions: to know how to establish a questionnaire and to know what to do of the facts produced by it, it is necessary to know what the questionnaire produces, that is, among other things, what which it cannot reach*". It is, therefore, indispensable to *"methodically discern declarations of intent, actions and declarations of action, which can establish, with actual behaviour, relationships ranging from exaggeration of valorisation or omission for concern with secrecy to deformations, reinterpretations and even selective forgetting".*

The use of these different instruments is a way of obtaining data of different types, which provide the possibility of crossing information.

More objectively, the data was collected from the:

- Analysis of the national and international literature on firms' internationalisation, business networks, born globals and M&As;
- Analysis of the existing literature on the business sector;
- Questionnaires and interviews used to carry out the empirical study, administered to some important employees of the companies. They were fundamental to collect general information about the organisational background, internationalisation process and FDI of the companies involved, the short and long-term strategies for the growth and sustainability of the business and the results achieved; in this sense, semi-structured interviews were conducted, where the questions were both open, giving enough freedom to the interviewee, and closed, in which the interviewee had to choose between a typified list of answers *(Lima, 2000, p.27)*.

Although the most common data collection methods in the case study research are observation and interviews, no method has been devalued in this work. The methods of collecting information were chosen according to the task to be accomplished.

In this way, several sources of evidence or data were used to allow, at the same time, different perspectives of the study participants and obtain several interpretations of the same phenomenon, creating conditions for a triangulation of data during the analysis phase.

3. Data Analysis

According to *Yin (1994, p.92)*, the use of multiple data sources in the construction of a case study allows us to consider a more diverse set of analysis topics and simultaneously allows to corroborate the same phenomenon. The objective is to understand the event under study and at the same time to develop more generic theories about the observed phenomenon.

The data collected from the interviews' transcripts and the questionnaires was analysed, focusing on finding particularities in the chosen case studies, when compared to the existing IB literature, about cross-border acquisitions and firm internationalisation.

From there, it was necessary to connect the dots, finding the relationships between the concepts to draw a general profile of the phenomenon studied, bringing new ideas to the literature.

4. Ethical Conduct

When the research involves human participants, it must be conducted in a way which respects the dignity, rights and welfare of participants.

To this end, it was first necessary to contact the companies selected for the project: Sogrape and Cotesi. In a first approach, a letter of presentation from the researcher was sent out, clearly and concisely indicating the purpose of the study (Appendix I).

To obtain the authorisation of the companies and, in compliance with their right to anonymity and confidentiality, permission was requested to disclose company data. Similarly, consent was requested to use the study participants' personal data, if companies allowed some of their collaborators to be interviewed, as well as their acceptance to collaborate (Appendix II).

Otherwise, in the respect for privacy and non-participation, anonymity would be used, as well as name of firm and fictitious personal names, a situation that was not verified in the present study.

At the same time as the letter of presentation/authorisation, a questionnaire was sent out stating the purpose of the investigation, with a view to obtaining valid answers to the research questions asked or the hypotheses formulated, with a view to ensuring maximum reliability of the data (Appendix III).
Subsequently, the researcher travelled to the companies to conduct interviews with those responsible for the organisation, who kindly agreed and made available their collaboration in this project.

Next chapter, named as The Cases of Sogrape and Cotesi, presents each company. After a brief presentation of the organisational background and history, it follows the analysis of their internationalisation process, main markets, long-term strategy of growth and sustainability and what role did business networks played throughout all the process.
Finally, it will be discussed the effect that cross-border acquisitions had in the internationalisation process of both companies.
In this way, rigor and vigilance were maintained in each of the phases to avoid any errors and deviations that could affect the validity of the results.

CHAPTER 3:

THE CASES OF SOGRAPE AND COTESI

1. SOGRAPE VINHOS

[The text written in quotation marks was said by Dr. Hélder Gomes da Silva, duri the interview]

Sogrape Vinhos borne out from the will of Fernando van Zeller Guedes to create and develop a different and innovative company, capable of making and promoting Portuguese wines in international markets.

Innovation *"is a very important role, which is intended to give even more relevance now and in the future (…) why? Sogrape appears with Mateus Rosé. Mateus was completely disruptive and ground-breaking at the time it came"*. Against all the odds, Sogrape Vinhos was created *"in 1942, in full World War II"*, with a pink wine, sold in bottles with the shape of the soldiers' flasks. So, *"in 1942, a pink wine, with the objective of exporting in that international environment of war (…) there is no more innovative example than this, that is in the genesis of the company"*.

Always focused on a long-term strategy and exportation of innovative wines, Sogrape Vinhos in a scenario of instability and uncertainty, looked for markets with low psychic distance, such as Brazil, Angola and Mozambique. The founder and still owner of the company, Fernando van Zeller Guedes, believed that the UK was the "*'World's Showcase' and that he who conquered English tastes would have the doors to the international market flung open"*, this was the ultimate goal.

Mateus conquered the world wine consumer and in the end of the 80's, Sogrape Vinhos asserted itself as a prominent leader among Portuguese wine companies, promoting the quality and diversity of the national heritage.

Figure 12 shows the cycle of Sogrape's cross-border acquisitions in the productive and distributive activities.

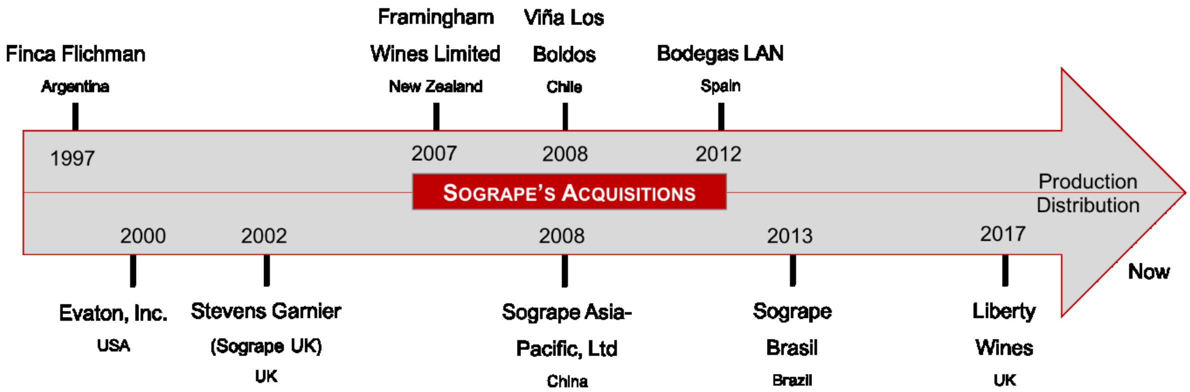

Figure 12 – Sogrape's cross-border acquisitions

The world of wines is divided in two: the old and the new world. The Old-World Wines are the wines from countries or regions where winemaking was first originated, such as France, Italy, Spain, Portugal, Greece or Germany. The New-World Wines are those from countries or regions where winemaking was imported during and after the age of exploration, such as United States, Australia, South Africa, Chile, Argentina and New Zealand.

The story goes back to the year of 1976, where happened a revolution in the wines world. On the May 24th, a 'blind' tasting in Paris, with French and American wines, shook the world of wine and produced consequences that last to this day. The 'Judgment of Paris' was revolutionary, because it undermined the supremacy of French wines. Until 1970, Europe was the one and only leading producer of wines. After this event and the gained prestige of American wines, European markets opened to the New World, boosting production expansion to countries, such as Argentina, Chile and New Zealand.

1997. The first cross-border acquisition was in **Argentina** and, therefore, it was the one that changed and started to place Sogrape in the sphere of cross-border acquisitions thought. But more than pursuing new markets and different wines, Argentina was the way to enter and the first step to conquer the new world wines.

Despite the exportation country targets had low psychic distance, the company's first cross-border acquisition was in a country with high psychic distance. However, there was a *"set of objectives that existed at the time that ended up justifying this investment"*.

Therefore, 20 years ago, *"Argentina was in the new world and was one of the 'hot' origins, very attractive, growing immensely"*. Sogrape acquired Finca Flichman, because it had *"a trajectory and a huge growth potential (…) there was a target in a relevant origin, in a strong international expansion and that was presented as very attractive, in terms of potential growth, opening new doors, for example, in the USA, the Argentine origin was at the time* a*nd also today very relevant to the US market and this was one of the synergies that was sought, which is to put Portuguese wines – which are much less in the US market – in conjunction with Argentine wines"*.

2000. Evaton is an imports' company that has been working with Sogrape since 1991, responsible for the distribution and promotion of Sogrape's brands and wines in the **USA**.

"Evaton is a different experience, because the US market itself has very specific characteristics. In the case of the USA, this works differently. We continue to have Sogrape Vinhos in Portugal, as a company that owns the brands, the producer; then, there is something here in the middle, it is the figure of the importer, which in the USA cannot be distributor; and finally, there must have a distributor".

The USA is one of the biggest world wine markets, *"if we look only to the geographic space that occupies the USA, it is the size of Europe. And it is divided into states, where these states are much larger than some markets in Europe itself"*.

In this way, Sogrape opted to invest in an importer rather than in a distributor, since *"here we had the influence and ability to really invest and have a stake"*. It did not invest in an American distributor, since it *"was very difficult, they are huge companies and we could hardly get into the capital of such a company"*. Moreover, even if Sogrape had invested in a distributor, *"we would have to have an intermediary (…) they would necessarily have in the middle to have an importer, who would not be part of the group"*. Since the USA market is different, *"this leads to different investment options"*.

2002. This was the first investment in the **UK**, in Stevens Garnier, later changed to what is known today as Sogrape UK.

In the beginning, *"Sogrape had a minority stake and then increased its share of capital up to 100%. (…) It was a wine distribution company and over the years Sogrape has been transferring its brands to this company"*. This company had been associated with Sogrape for more than 20 years, representative of almost the entire Sogrape brands' portfolio.

The market of UK was very important to Sogrape since its foundation, existing a *"historical relationship of this market to Sogrape"*.

The motives for this acquisition, *"more than the company, it was the UK market. For a company like Sogrape, which sells wines, the UK market is one of the major world markets. For years, the USA is the largest market in the world, there are other years where it is the UK. And the UK, being as important as the USA, for example, has a specific feature, which is: it has no relevant wine production. The USA produces wine in California and the USA imports 20%, while the UK imports practically all the wine it consumes. Therefore, it is a large and buying market, which is why it is very important for Sogrape"*. In this way, *"the entry into Stevens Garnier has this goal: it is a very relevant market and we want to have more influence on the distribution"*.

2007/08. Sogrape made two important acquisitions. In 2007, it acquired Framingham Wines, **New Zealand**, completing its portfolio with the white wines of the Sauvignon Blanc caste. In 2008, it bought Chateau de los Boldos, a 270-hectare farm, in **Chile**, considered to have an exceptional microclimate to produce premium wines.

2012. In this year, Sogrape enters for the first time in **Spain**, with the acquisition of Bodegas LAN. *"It was also a very important step. Why? Because it is an origin in Spain, in which Sogrape has defined, very clearly, that it is very important for its development as a company"*.

This company was a relevant acquisition, since it was a holder of a recognized brand portfolio and represents the entry into one of the main wine producing countries of Europe, with important relations to the main core global wine markets.

2017. This was the last acquisition made by Sogrape in the **UK**, in the distribution company, Liberty Wines. It is not a 100% stake, it is a minority stake for now. However, it is a relevant acquisition, since it is done in a scenario marked by instability and uncertainty brought by and with Brexit. *"That is, at a time when, apparently, there are political, economic and social constraints in a country like this, Sogrape decided to bet"*, enhancing and reinforcing the focus on long-term strategies followed by the company.

This decision was not a response to Brexit, but rather a reinforcement of Sogrape's position in the UK. *"Sogrape's strategy focus on long-term, which makes events of more limited impact in time, such as Brexit, have less relevance. What am I saying? That for Sogrape, the UK market is relevant now, in 5 years and in 30 years. So, in the long-run. And it will continue, inside or outside the EU. This market is important, period"*.

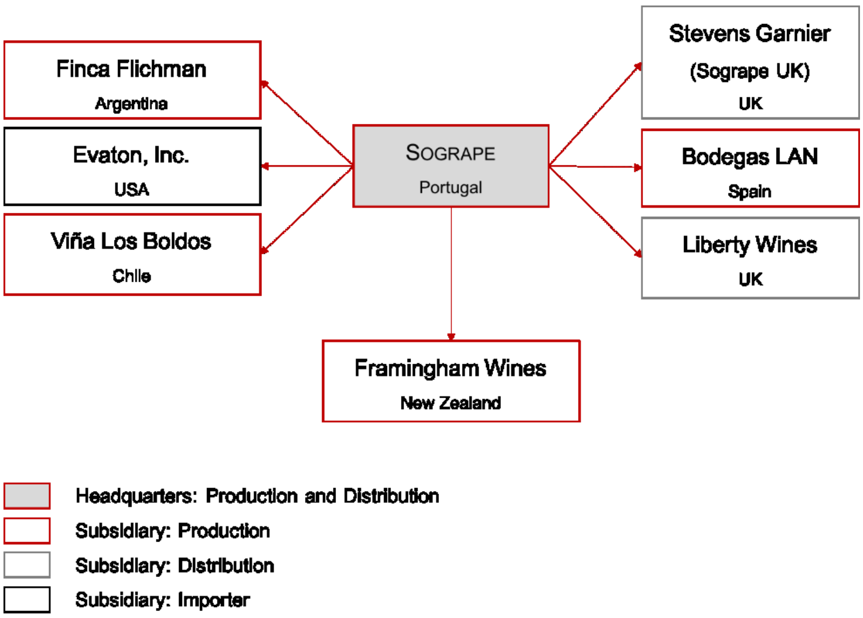

Figure 13 – Sogrape's acquisitions type

All these acquisitions were done to strengthen the international position and implementing the strategy outlined for the sustainability of Sogrape's business. *"It has to do with giving greater importance to more important markets and with more influence in the sales force"*.

1.1. Pre-Acquisition Phase

The choice of the strategic partner does not tell the same story "in all cases and there are several situations that can trigger an acquisition. It is often the predisposition of a company, in a certain market and an opportunity arises (…) And there are other cases where there is an active posture of seeking concrete targets. There is no common pattern".

Moreover, Sogrape does not look for leader companies in their markets, but for specific characteristics, such as the brands' profile, the region in which is located or the dimension of the company. *"That is, when you put 'check' in the set of characteristics that are identified as relevant to that market, then the player is eligible to be analysed"*.

In Argentina, the strategic partner was analysed due to its potential of growth in a 'hot region' in the new-world wines; the USA and UK are core markets, with well-established distribution networks, where *"the relationships are long-lasting, not occasional"*; and Spain, since it is one of the biggest producer countries in Europe and Sogrape did not have this origin yet, capable of creating valuable synergies among its subsidiaries. So, *"one of the main drivers was the relevance of the players, specifically in the market"*.

Sogrape acquired companies in the same sector, having the necessary 'feel' for the businesses and their needs. *"That is, when we buy in Spain origin, it is because we do not have this origin, this competence. When we buy a stronger distributor in the UK, it is because there is already a distribution chain that we do not have yet, its range of customers, its reputation and these are very valuable resources"*. So, Sogrape is acquiring capabilities and know-how, resources that are rare and valuable to strengthen its businesses and position in a cross-border context.

The acquired companies offered opportunities for synergies, *"in commercial terms, there have been increasingly synergies created (…) The distribution company itself, as it has wines from Portugal, Spain, New Zealand... all together are stronger. And perhaps there are customers who only looked for suppliers who have at least Spain and New Zealand and we have so far not been able to get into those who demanded Spain. And, for the origin of New Zealand, this customer was not a hypothesis and happened to be,* *because the company bought a company in the region of Rioja. (…) I think this is one of the main advantages that have been verified over the years"*; access to new markets and their consumers. In return, they use the reputable, premium brand of Sogrape Vinhos, distinguished worldwide, as well as its capabilities, know-how and connections in the wine world.

Regarding the negotiation process, Sogrape had two experiences; or the target companies are in a formal sale process or it is an informal process between two interested parties.

In the former case, the negotiation process is organised. It has several phases, where the interested players in buying pass by elimination rounds until one player is chosen to properly negotiate price, conditions of purchase and sale, etc., reaching to the final deal.

"Then there is another kind of experience, which is when an opportunity arises out of an organized process, as was the case of the latter, Liberty Wines". The negotiation process in this case was longer, since it was an informal procedure, in which the parties were having meetings according to their availability to determine the price and conditions of the deal.

The deals were achieved, after the processes of due diligence and negotiation, *"undoubtedly, in every acquisition process there was an analysis of the strategic purposes. If this does not happen, the acquisition will not happen"*.

1.2. Post-Acquisition Phase

"You cannot impose things that can be very wrong in different countries". Having this in mind, Sogrape is very attentive to its acquired companies, *"what habits it has, what culture it lives, what is relevant to those people, who are the people who are in the administration and how do they manage their teams, how do they do this leadership exercise; and then, where improvement areas are identified, are suggested and put to consideration. The process is very careful"*.

Sogrape has production and distribution in different parts of the globe and when a company plays in an international sphere, there are more challenges and difficulties. Whether the acquisitions are in Argentina or in more developed

countries, such as USA and UK, *"there are always cultures and habits that are completely different and these processes are challenging"*.
Even within the same country, producing wine *"is not the same in all regions. Producing wine in Argentina, Chile, New Zealand, Portugal and Spain – which are the 5 production origins of Sogrape – is done differently. There are some principles that everyone has, but it is not exactly the same in all places"*. However, despite some procedures and habits are adopted by the acquired company and *"the identity can be shaped, it is never totally altered. They have their habits and ways of thinking and working, which are being adapted, but they continue to be very characteristic of themselves"*.
Regarding to the management team, Sogrape always tried to maintain the top management, retaining the firms' specific knowledge, that is hard to replace and give continuity to the leadership, avoiding negative reactions and uncertainty among employees. However, *"we have a little bit of both experiences. (…) In the case of Chile, they have already been more than one Portuguese General Director and, at the moment, there is a Chilean and came from outside. That is, when you bought a company, the General Director became Portuguese, placed in the meantime - and for various reasons - has already left and was hired an external person. In Spain, there was in fact the maintenance of the entire team and only the Chief Financial Officer was Portuguese there. So, it was a specific, timely change. And the rest of the management held"*. Therefore, despite the control Sogrape has over its subsidiaries' operations, they are run independently by their management team.

Sogrape was a company with an internationalisation strategy since its foundation. In plain WWII, it began exporting Mateus Rosé, despite all the difficulties the entire world was exposed to.
Determined to make the Portuguese wines' quality and uniqueness known worldwide, Sogrape began a cycle of cross-border acquisitions of the most important global producers and distributors, owning a larger panoply of wine brands and assuring its presence in the most relevant markets.

2. COTESI – COMPANHIA DE TÊXTEIS SINTÉTICOS, S.A.

[The text written in quotation marks was said by Eng. Rui Marques, during the interview]

In 1943, a small factory called Corfi is born, which would be the origin of the Violas Group. It started in the industry sector and, throughout its history, it widened its interests to tourism, real estate, leisure, banking and food.

"Cotesi – Companhia de Têxteis Sintéticos, S.A. was founded in 1967 and was the forerunner in Europe in the production of twine, nets and ropes made from synthetic and natural raw materials. Today, Cotesi is the world's largest producer of Baler Twine".

The globalised world brought a panoply of new challenges for business, among them fierce competition of emerging countries. They came with low prices of inputs and products, low-cost workforce, making things hard for developed economies where quality was before price.

Cotesi suffered a decay in the 90s, because it was incapable of competing with emerging countries – China, India, Turkey. In 1999, Cotesi was forced to shut down a factory, where the main input was hard labour, employing 800 workers. Since then, the investment has been done in technology and technological plants. The emerging countries could compete with traditional companies, but not with technology, *"only if they can work better than the machine, which they cannot. It's the technological difference"*.

So, the option *"was start protecting our business"*. How? *"At European level, we bought our largest customers. We bought them all. It lasted longer or less time, but we bought them all"*.

Figure 14 presents Cotesi's cycle of cross-border acquisitions, starting from 1996 until COFRA's acquisition in 2008.

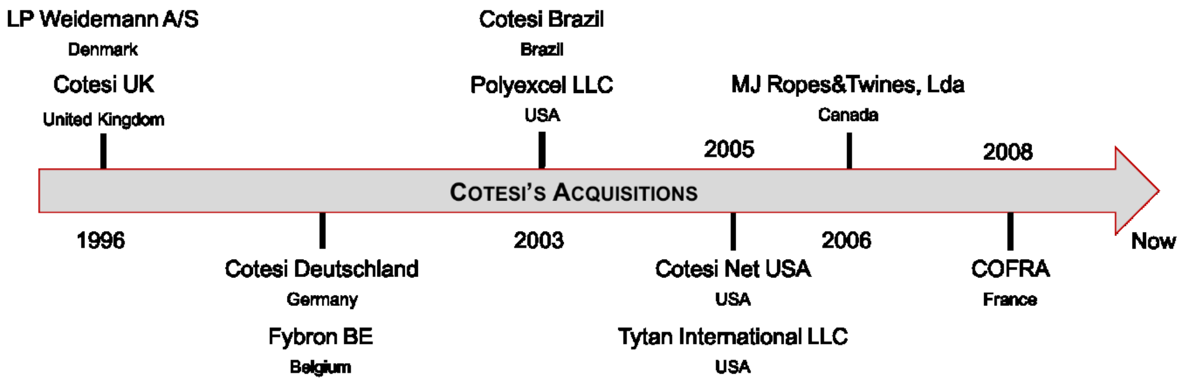

Figure 14 – Cotesi's cross-border acquisitions

1996. Cotesi made its first acquisition in **United Kingdom** of a long-standing partner. *"It was an English family, it was a company that had no internet and, being in Yorkshire, it could be the biggest company and distributor of ropes in England"*.
With no descendants to keep running the company, Cotesi saw the opportunity to acquire it, since *"it was our greatest customer of ropes. On Cotesi's side, there was much interest in the British market"*.
Today, it is a supplier of premium package of products oriented to the Marine, Fishing, Safety, Defence and Agriculture and a market leader in the UK.

Until 2003, the company had already bought the distribution companies in Denmark, UK, Germany and Belgium. These subsidiaries were of a great importance for the internationalisation process, since they provided the control over the distribution channels in Europe. LP Weidemann (Denmark) was the distributor for the Scandinavian agricultural market; Cotesi UK was the distributor for one of the most important markets for Cotesi, the UK; and Fybron, in Belgium, had its delegations in Europe and in the USA.
However, these acquisitions arose as opportunities, not as a part of Cotesi's strategy. When the company began to stumble, the strategy was to fortify the control over the distribution and to focus on the American market.

2003. This year was the beginning of the investment cycle in the American continent, strengthening the Cotesi's productive and distribution activities.

In the **USA**, the story was different. It was a technologically advanced company managed by Canadians and the biggest Cotesi's competitor in the USA market. Suddenly, the group had problems and went bankrupt, emerging the opportunity to be acquired. Once again, Cotesi did not hesitate and bought it; *"the company was closed for 47 days. After 47 days, the company opened with a different name [from Polytwine to Polyexcel]"*.

Polytwine was *"a leading company and the whole market recognized that that company was the largest American wireline company"*. In this way, Cotesi could assure its position in the American market and become more innovative, with all the advanced technology of its, until then, competitor.

Today, Polyexcel in an American manufacturer of premium quality Baler Twine, always looking for new products in the future of farming.

In **Brazil**, Cotesi acquired a *"historical supplier of the group"*, that was a reference in the market, being the *"largest distributor of fibre in Latin America"*. This company is a productive facility to export to North-American market.

2005/06. The acquisitions continued in the American continent, **USA** and **Canada**.

Until ten years ago, Cotesi was one more Portuguese company in the USA. Today, it represents *"80% of the largest sales force, the largest USA national distributor (…) at the present, are the leader. We have three companies in the USA and one company in Canada, and we are leaders. In our area of activity, we are leaders"*.

2008. The last and longest acquisition process was in **France**, taking 6 years to be completed. This company was Cotesi's *"biggest client"* and it was a peculiar buyout made by Cotesi, since it bought two competing companies, whose hatred between them had lasted for 30 years.

However, *"it is now a company called Cotesi France. In the agricultural part, they were together in a company that is now called Cotesi França [COFRA]"* and it is a leader distributor of agricultural products in France, with around *"25, 30% of market share"*.

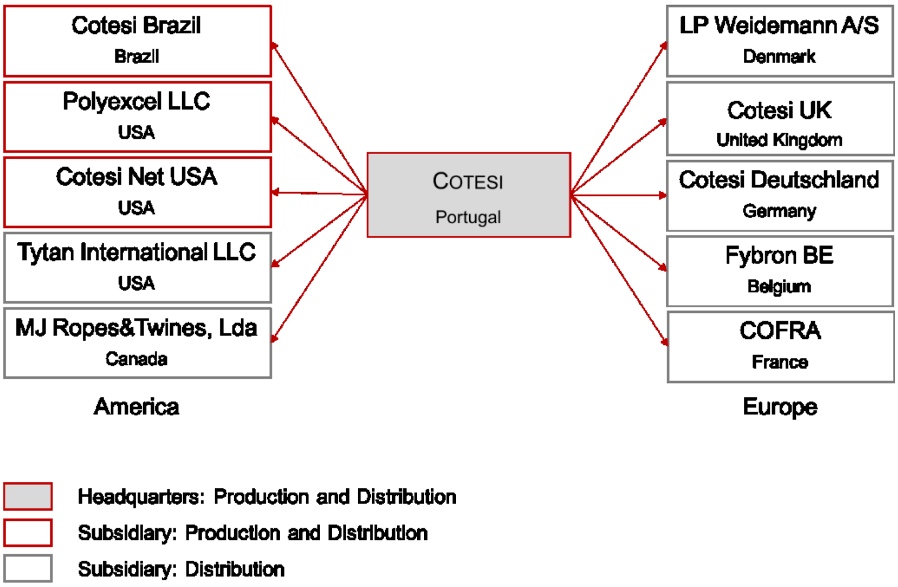

Figure 15 – Cotesi's acquisitions by type

2.1. Pre-acquisition phase

When Cotesi suffers a decay in the late 1990s and to become once again leader in the market, Cotesi started a long process of cross-border acquisitions of its major clients. But the idea was not to buy just its clients, *"the idea was to buy leading companies in every market"*. Therefore, the strategic partner did not go through a deep process of due diligence, since they were Cotesi's clients and the relationship was long-standing. *"In the UK, USA, Brazil and France, there was a very strong relationship between Cotesi's owners and their distributors. Being the distributor of a Portuguese company out there, first and foremost, there had to be trust"*.

Because of the long courtship period, each company knew the potential acquisition's value. The acquisitions were built on long-term relationships and trust, where *"the purchase itself was a consequence of something that lasted a long time"* and the deals were achieved.

2.2. Post-acquisition phase

This stage is mostly marked by the integration strategies followed by the parent company.

Cotesi acquired companies in different countries, which means different farming conditions, resources and techniques. Known as a master of pursuing proactive technical innovation and differentiation, the acquisitions were, beyond achieving position in the cross-border markets, to gain new capabilities and technology to continuously develop and improve its products.

Throughout all the acquisition processes, the communication played a crucial role. The details, rules, strategies and intentions were clearly defined, so in the end all the parties were plain satisfied with the outcome.

Cotesi tried always to follow the same strategy in all acquisitions; *"the company's strategy was to keep the identity of the companies we bought"*. It attempted to keep the top management, using insiders, in order to retain the firm specific knowledge and because it is hard to replace; moreover, it avoids employees' uncertainty and negative reactions.

In the USA, after 47 days of closure, *"the company opened with a different name, 90% of the employees were the same and the owners were us"*. So, *businesses continue to be managed by Americans and Canadians; in France, as well. (…) Except for the UK, where a Portuguese is there"*. The former owner of the British company *"was going to reform, on condition that he would stay there for two or three years to secure the passage"*. It is a particular case, because, in the beginning, *"who stayed there was number two"* of the former owner – an insider. However, due to some management problems, it was necessary to bring an outsider, a Portuguese manager to the UK's subsidiary.

Since its foundation, Cotesi was never aiming the domestic market, but rather the global market. *"The Portuguese market for Cotesi never meant much, except for very few exceptions. (…) we have always been exporters in the order of 98%"*, as Eng. Rui Marques referred.

Always focused on the most advanced technological innovations and on continuous R&D, and after the rounds of cross-border acquisitions, Cotesi can promptly say that it is the world's largest producer of baler twine and leader in the global market.

Chapter 4:

Discussion

This chapter will analyse the effect that cross-border acquisitions had in the internationalisation process of Sogrape and Cotesi presented above.

These companies started their entry in foreign markets through exports, demonstrating few interest in the Portuguese market, strong international marketing and orientation for their innovative products. They both grew through cross-border acquisitions, becoming leading companies in the global market.

Aiming a more rigorous discussion of the cases studied, it was necessary to create a new theoretical framework, adjusting some concepts and adding novelties to the existing literature.

Cross-border Acquisitions	Internationalisation
• Triggers for Cross-border Acquisitions • Psychic Distance • Business Network Position and Control • Careful Process of Acquisition o Pre-acquisition Phase ▪ Choice of the Strategic Partner ▪ Due Diligence Process o Post-acquisition Phase ▪ Integration ▪ Synergies	• Leadership and Vision • Competitive Advantage • Strategy o Motives for Internationalisation o Importer vs. Distributor o Location-specific Product Range o Risk exposure

Figure 16 – A posteriori theoretical framework

4.1. Triggers for Cross-border Acquisitions

Based on the data retrieved from the case studies, Sogrape and Cotesi began their cross-border acquisitions cycle when confronted with new competition or a competitor bankruptcy.

Sogrape. The emergence of the new-world wines created a fierce competition, successfully presenting wines of international castes and gaining significant market shares. In this way, Sogrape made its first cross-border acquisition in Argentina, in 1997.

Cotesi. The cycle of cross-border acquisitions began in 1996, in the distribution activities. However, it arose as an opportunity and not as part of Cotesi's internationalisation strategy. So, the first relevant cross-border acquisition was in 2003, in the USA, when confronted with the emerging countries, such as China, India and Turkey, and their low-cost products.

Moreover, another important trigger was the bankruptcy of this company, biggest competitor in the American market. As this company was technologically advanced, it was the opportunity for Cotesi to acquire the only thing that could face and overcome the emerging countries, technology.

4.2. Psychic Distance

The U-model suggests that companies first internationalise to psychologically proximate countries, gradually expanding to countries with greater psychological distance.

However, the two cases presented are contradictory with the literature, since their first cross-border acquisition shows high psychic distance. Sogrape acquires Finca Flichman, in Argentina, and Cotesi acquires Polyexcel, in the USA.

According to *Zhang (2014)*, psychic distance is characterised by the *"differences in political, economic, cultural and environmental aspects of the home and host countries when the enterprises conduct international operations activities"*.

Argentina and the USA are two countries where the political, economic, cultural and environment are different from Portugal.

So, in this study, it is possible to observe that cross-border acquisitions increase the firms' internationalisation into high psychic distance.

4.3. Business Network Position and Control

Sogrape and Cotesi were exporter entities since their foundation, positioned in a foreign network, meaning that they are in constant contact with foreign actors. Therefore, in the late 1990s, they were considered 'international among others', having the need to integrate and coordinate market positions, sustaining and improving their positions.

The greatest difference from the U-model to the revised U-model is that the internationalisation is no longer analysed from the firm's perspective, but rather from the perspective of the firm within its business network. Thus, the knowledge, trust and commitment of the firm are considered more important than the size and flexibility of its investment.

With an insider's perspective, these companies could recognise the opportunities within their networks. Their cross-border acquisition processes began in the 1990s, considered the era of mega-mergers, which the main outcome was globalisation, bringing new challenges and fierce competition from emergent markets.

Sogrape. It acquired the importation/distribution subsidiaries based on the *"long-lasting"* relationship and trust they had with its business partners; Evaton, USA, was bought in 2000, but they have been doing business with Sogrape since 1991; and Stevens Garnier, acquired in 2002, has been doing business with Sogrape for more than 20 years. In this way, Sogrape reinforced and strengthened its position in its core markets and took control over its distribution networks.

The other acquisitions arose as business opportunities, through contacts within the network.

Cotesi. Cotesi's cross-border acquisitions were based on the knowledge about the partners' operations, know-how, technology and trust, since that they were its major clients.

However, the acquisition of COFRA is peculiar. COFRA is the junction of two competing companies, whose hatred had last for more than 20 years, according to Eng. Rui Marques. To gain the control over the French market, Cotesi bought the two companies that together had *"25, 30% of market share"*.

With the acquisitions of the subsidiaries in Denmark, UK, Belgium, Germany and France, Cotesi strengthened its control over the distribution in Europe, gaining independence from its agents and conquered the north-american market with the production and distribution there.

With the acquisitions of long-standing partners, Sogrape and Cotesi took control of their up and downstream activities, even if for that end, Cotesi had to buy two competing companies to conquer one core market.
One idea is consistent, the more importer/distributor cross-border acquisitions, the more distribution control for internationalisation.

4.4. Careful Process of Acquisition

An acquisition is always a risky move, but a cross-border acquisition involves much more than the organisational change and adaptation. It requires a careful process, since the right choice of the strategic partner to the integration of different organisations, regarding culture, values and customers.

4.4.1. Pre-acquisition Phase

4.4.1.1. Choice of the Strategic Partner

The choice was done differently in each company. While Sogrape searches for specific characteristics, Cotesi is focused on acquiring the leader companies in core markets.

Sogrape. It does not look for leading companies, but rather for specific characteristics of the target companies, such as brands' profile, region where it is located, dimension and growth potential.
According to the data retrieved, the most evident acquisitions' cases of this concern with the characteristics of the target company was the acquisitions in Argentina and Spain.
In Argentina, the target was located in a hot region (new-world wines), giving access to an important market of new wines, and showed a high growth potential.

Sogrape had always an eye in Spain, since it is one of the main European wine producers. In this way, Sogrape was interested in the location, specifically in the region of Rioja and the brands' portfolio Bodegas LAN could offer, broadening Sogrape's product range.

Cotesi. On the other side, Cotesi pursued a different strategy to choose the strategic partners. "*The idea was to buy leading companies in every market*", said Eng. Rui Marques. Leading companies in their markets, capable of providing valuable know-how and technological innovation.

The choice of the strategic includes the due diligence process, where the Sogrape and Cotesi had to evaluate the potential targets, before choosing them.

4.4.1.2. Due Diligence Process

The due diligence process is different for both companies, mainly because of their choice of the strategic partner.

Sogrape. It is necessary to make the distinction between the acquisitions of production and distribution companies.

As presented above, Sogrape had long-lasting relationships with its importer in the USA and distributor in the UK. In these cases, the due diligence was not a so-long process, since they had a courtship period, meaning that the parties knew and understand each other, having already a trustful relationship.

On the contrary, the production subsidiaries were subject of a more detailed and long due diligence process, since Sogrape did not have any previous contact.

Cotesi. Cotesi bought its major clients in Europe, meaning that it had a long period of courtship with each and every acquisition in distribution. So, the acquisitions did not go through a deep process of due diligence, since they had a long-term relationship, based on trust and many years of experience.

In terms of production subsidiaries, the process was also not long; in the USA, the target company was Cotesi's competitor; and the Brazilian target company

was Cotesi's *"historical supplier"*. Therefore, in both cases, Cotesi knew each other, making shorter the due diligence process.
From this section, it is possible to understand, the longer the previous relationship, the shorter the pre-acquisition due diligence process.

4.4.2. Post-acquisition Phase
4.4.2.1. Integration

Based on the integration strategies study by *Haspeslagh* and *Jemison (1991)*, this section scrutinises the strategies followed by the two companies.

Sogrape. In its acquisitions, Sogrape adopted integration by symbiosis, where it can create and combine know-how in a worldwide basis, creating synergies and showing high strategic interdependence between all the subsidiaries. Moreover, the subsidiaries have high need for organisational autonomy, since *"there is great independence between the business units. (…) They have independent management teams, which means that the decision-making in Argentina on what is done in Argentina is with management order in Argentina. So, there is a level of independence and a responsibility assigned to the company and its management team"*.
However, there is permanent control of Sogrape of its subsidiaries, with a special concern with its human capital, spread by 11 countries and 5 continents, under the motto, *"People are our grapes"*. In this way, it was important for Sogrape to collaborate with its subsidiaries, where they keep their independence, top management and personnel (insiders), but share know-how, capabilities and resources, creating synergies and defining the company's success.
Cotesi. In its acquisitions, Cotesi adopted integration by symbiosis, where it can create and combine know-how in a worldwide basis, showing high strategic interdependence between all the subsidiaries. Moreover, the subsidiaries have high need for organisational autonomy, since *"they are all independent companies"*. However, *"there is a supervision of Cotesi, with platform. We are integrated into the SAP system. We have visibility into stocks, how they operate and then we communicate. But we try not to eliminate, not be a Portuguese in the USA or in England"*. In this

way, it was important for Cotesi to collaborate with its subsidiaries, where they keep their independence, top management and personnel (insiders), but share know-how, technology and resources, creating synergies and defining the company's success.

Giving extreme importance to communication throughout the whole process, the integration phase was done naturally, where the parent companies did not impose their way to operate, employees and values, just maintaining the control over the subsidiaries operations. Each subsidiary run independently and by insiders (expect some exceptions, due to problems with previous employees).
Sogrape and Cotesi agree that each market has different needs and culture and, as Hélder Silva commented, *"you cannot impose things that can be very wrong in different countries"*.
Perhaps, this was one of the main reasons for the success of the cross-border acquisitions and their integration in the parent companies.

Contrary to the high-rate statistics of failed acquisitions, Sogrape and Cotesi's cross-border acquisitions can be considered a success, in terms of the choice, due diligence process and integration of the acquired companies.

4.4.2.2. Synergies

Synergies were the main goal for both companies when they began the cycle of cross-border acquisitions.

Sogrape. For instance, the distributors are crucial in the company's value chain, since they make the connection between the producer and the customers/consumers. They have a relevant role in the feedback about the market and consumers. Moreover, buying production farmhouses, besides increasing immediately the clients' portfolio and enter new market segments, it will broad the product range, making Sogrape an interesting choice for customers that wanted a specific brand that now is on the menu.

Cotesi. The most important achievement was the clients' portfolio that grew from 10 to 10 000, leveraging the exposure of the company. Moreover, Cotesi is a company that make great investments in technological development and the productive plants were important high-tech acquisitions, improving the company's efficiency and effectiveness in the manufacturing of its products.

As seen before, adopting an integration by symbiosis, Sogrape and Cotesi could combine know-how in a worldwide basis, showing high strategic interdependence between all the subsidiaries and creating valuable synergies.

4.5. Leadership and Vision

Sogrape. Fernando van Zeller Guedes was the responsible for the foundation of Sogrape Vinhos and the birth of Mateus Rosé. In the middle of WWII, in the face of the world economic and political instability, Sogrape was born envisioning internationalisation and the conquest of the global markets. It was due to the vision, character and personality of Fernando van Zeller Guedes, who took a chance and travelled the world, that Sogrape became a successful and leading wine company, when many claimed that was a failure from the outset.

Cotesi. Founded by Manuel Violas, known as *"a great industrialist and reference figure in the national and international panorama"*, Cotesi stood out in the national and international arena from its early days. The domestic market never meant much, being the main goal the exportation to the global market.

Fernando van Zeller Guedes and Manuel Violas's vision and personality led Sogrape and Cotesi to take their first steps on the international arena. Their desire to internationalise was crucial for both companies, that were once small, seeking risky and complex markets with a lack of international knowledge.

4.6. Competitive advantage

Sogrape. Sogrape conquered the international markets with its most famous wine, Mateus Rosé. Mateus emerged as an innovative product, with a genius marketing and WWI military flasks appearance, starting to be exported to the international market.

Cotesi. Always with a strong focus on innovation, Cotesi was a pioneer in Europe in the production of synthetic yarns, with the bet in the production of synthetic nets, as well as of bags and fabrics, being *"left with the complete package, which we still offer our customers today"*, says Pedro Violas.

Their competitive advantage for their differentiated and high-quality products has different sources. While Sogrape have been always betting on the product innovation, making different type of wines, Cotesi have been always investing in technological development, improving the process of production for its products. Therefore, to overcome their liability of newness, these companies had to develop R&D capabilities and technological knowledge to achieve competitive advantage over their foreign competitors, creating superior and differentiated products, with more efficiency and effectiveness in their production processes *(Knight & Cavusgil, 2004)*.

4.7. Strategy

Sogrape and Cotesi are companies with an innovative genesis and the desire to internationalise, making their high-quality products recognised worldwide.

Their founders had a very clear vision about the international path of the companies, beginning the internationalisation process since their early days and being exporter entities, in which the domestic market was not the goal.

At the beginning of their internationalization processes, the goal was to reach and conquer the core foreign markets. However, with the increasing openness of markets and new players arising in emergent markets brought changes to the world and business landscape, which led Sogrape and Cotesi to adopt different international strategies of internationalisation.

4.7.1. *Motives for Internationalisation*

As Sogrape and Cotesi are for-profit organisations, the acquisitions were for economic motives to increase its profits; however, the main motive was strategic *(Brouthers et al., 1998; Johnson et al., 2011; Gomes et al., 2011)*. In a RbV perspective, the cross-border acquisitions were highly appealing for their potential to create and exploit valuable synergies, through the transference of unique capabilities and resources.

Sogrape. To face competition of new-world wines, Sogrape managers adopted a strategy of diversification of products and intensification of internationalisation by widening the geographic area of wine production and its productive capacity, seeking to reduce the exclusive dependence on Portuguese production.
With the acquisitions in Argentina, New Zealand and Chile, Sogrape acquired know-how on the new-world wines production. The expansion of its productive activities to Spain was the gateway into one of the Europe's leading wine-producing countries, strengthening Sogrape's international position and achieving its business sustainability strategy.
Moreover, the acquisitions of Evaton, Stevens Garnier and, more recently, Liberty Wines, was to control the distribution channels on the more relevant consuming countries, "*promoting Portugal's best wines throughout the entire world*". So, more than pursuing market power, Sogrape was mainly interested in developing and stretching capabilities and know-how, access to core markets, their consumers and distribution networks, strengthening their position at a global scale.
Cotesi. With emergent countries undermining the business with its low-cost products, Cotesi had to change its strategy. It started a cycle of acquisitions of its major clients, leaders in their markets.
It assured the control of its distribution networks, as presented before, and focused on the American market.
Thus, it acquired Polyexcel in the USA, accessing to its highly-advanced technology and expanding its activities to the north-american market. To

consolidate and assure its leading position in this market, Cotesi made acquisitions in Brazil, USA and Canada.

Acquiring the market leaders in the industrial sector of agricultural products and twines, Cotesi was not only interested in improving its financial performance, but mostly to increase its market share, develop and stretch capabilities and know-how and access to new and advanced technology, reaching the so-wanted position of market leader.

To keep up with the innovative status, their motivations were market seeking, since both companies controlled their distribution networks to access and maintain a strong position in new markets; efficiency seeking, with the acquisitions of the production subsidiaries, increasing parent companies' productive capacity; and, finally, strategic asset seeking, looking to obtain valuable skills, know-how and technology to maintain their competitiveness and leading positions in the global market.

4.7.2. Importer vs. Distributor

The USA market works under a system called the Three Tier System, that creates a very complex and competitive marketplace.

Foreign brands cannot legally sell their wines or spirits to distributors or retailers. There is an intermediary figure, the importer, that will exclusively own the rights of the foreign brands in its territory. It has distribution partners that will supply the foreign brands to the market.

This is the reason why Sogrape acquired an importer, Evaton, in the USA. Even if it had a stake on a distributor, it would need to exist an intermediary, that would not be part of the group and Sogrape would lose control.

Therefore, cross-border acquisitions can target importers, rather than distributors, to increase firm's internationalisation.

4.7.3. Location-specific Product Range

At least in two acquisitions of Sogrape, location-specific product range was the requirement for internationalisation.

As presented above, synergies together with the complementarity of product portfolio were two goals for cross-border acquisitions to make Sogrape's brands complete and strong, when compared to competition.

The acquisitions in Argentina, New Zealand and Chile allowed Sogrape to diversify its brand portfolio with premium wines recognised worldwide. Expanding its productive activities to Spain, one of the main European wine producers, Sogrape benefited from Bodegas LAN's renowned brand portfolio.

In this way, cross-border acquisitions and firm internationalisation were mediated by the product range of the target company. Moreover, from the case, it is possible to affirm that the more producer cross-border acquisitions, the more product range for internationalisation.

4.7.4. Risk Exposure

In the beginning, Cotesi's had 10 clients, that represented 80% of company's turnover. This means that if any of these clients were missing, either because it quitted the partnership with Cotesi or because it went bankrupt, it would immediately be translated into a commercial and financial penalty.

With the cross-border acquisitions of the European distribution companies, today, instead of 10, Cotesi has 10 000 clients, in which none represents more than 10% of the company's turnover, incurring in a lower commercial and financial risk.

Therefore, the more cross-border acquisitions of distributors, the less commercial and financial risk.

Chapter 5:

Conclusion

This study intended to broaden the scope of research in the field of the cross-border acquisitions, by understanding what is the effect of cross-border acquisitions in the firm's internationalisation.

It is our hope that this research will provide a relevant contribution to the study of a field that, while deserving the note-worthy attention of some academics, it is still claiming for a more thorough approach.

This project was done through two case studies, where seven topics were identified as key factors to evaluate the effect cross-border acquisitions have in the firms' internationalisation. It allowed to clarify in more detail for each company the triggers for cross-border acquisitions, their psychic distance, the role of business networks and how did the companies improved their position and control within them, analyse the process of acquisitions, the goal of synergies, the importance of leadership and vision, the competitive advantage and the followed strategy, in terms of motives to internationalise, the role of importer, the relevance of location-specific product range and the risk exposure.

Firstly, it was possible to observe that one trigger was common to both case studies; new competition. For Sogrape, it was the emerging new-world wines and for Cotesi, it was the emerging countries. However, Cotesi shows another trigger in the USA acquisition. It bought Polyexcel due to a competitor's bankruptcy. In this way, Sogrape and Cotesi began their cross-border acquisitions cycle when confronted with new competition and/or a competitor bankruptcy.

When analysing the psychic distance of their first cross-border acquisition, it presents contradictory to the literature, in which companies expand to psychologically proximate countries. In this study, it is possible to observe that cross-border acquisitions increase the firms' internationalisation into high psychic distance.

The business networks play an important role for the internationalisation of both companies, especially in terms of the distribution networks. Sogrape had *"long-lasting relationships"* with its importer in the USA and distributor in the UK, its core markets. Cotesi, acquiring its major clients, had long and trustful relationships with its targets. It bought all its distribution partners in Europe. Both companies, to improve its position in their networks, took control over their distribution channels, being possible to conclude that the more importer/distributor cross-border acquisitions, the more distribution control for internationalisation.

Sogrape and Cotesi's acquisitions can be considered a success. To understand why, it is necessary to analyse their acquisition's process.

In terms of the choice of the strategic partner, while Sogrape searches for specific characteristics, Cotesi is focused on acquiring the leader companies in core markets. This study shows that this has consequences in the due diligence and negotiation processes.

The acquisitions, in which the parent companies had long-lasting relationships, the due diligence and negotiation processes were shorter, because *"the purchase itself was a consequence of something that lasted a long time"*, as Eng. Rui Marques argues. So, the longer the previous relationship, the shorter the pre-acquisition due diligence and negotiation processes.

Regarding the strategy for internationalisation, there are four main conclusions. With Sogrape's acquisition of Evaton, in the USA, it was found that cross-border acquisitions can target importers, rather than distributors, to increase firm's internationalisation.

Moreover, in Sogrape's case study, some cross-border acquisitions and firm internationalisation were mediated by the product range of the target company. The cross-border acquisitions in Argentina, New Zealand and Chile gave access to a renewed portfolio of new-world wines and the possibility to compete in those markets. Bodegas LAN, more than allowing the entry in one of the main European producers, it allowed Sogrape to benefit from its renowned wines'

portfolio. From these evidences, it is possible to affirm that the more producer cross-border acquisitions, the more product range for internationalisation.
The final interesting observation was regarding Cotesi. Before acquiring the European distributors, Cotesi only had 10 clients, constantly incurring the risk of those clients jeopardise the business, in commercial and financial terms. To safeguard its business, Cotesi changed its strategy, beginning a cycle of cross-border acquisitions of its distribution clients. Increased exponentially the number of clients from 10 to 10 000 and reduced its exposure to risk. Therefore, the more cross-border acquisitions of distributors, the less commercial and financial risk.
Although the percentage of failed acquisitions is between 50 and 75%, Sogrape and Cotesi are two companies that followed a strategy of growth through cross-border acquisitions, the result of which had been and still is a success.
Making use of their highly-internationalised networks and their knowledge, they were capable to recognise and explore opportunities of growth. Through a cycle of cross-border acquisitions within and due to their networks, they improved and strengthened their positions in the global markets.
Therefore, the cross-border acquisitions had a positive effect in the internationalisation of both companies. Perhaps, if they did not have invested and took the chance in the international arena, acquiring the biggest players, they could not have place in the top leading Portuguese multinationals.

5.1. Limitations and Further Research

This study was confronted with a few limitations. The main limitation concerns the shortage of literature and practical examples on the cross-border acquisitions within a company's business network and how could it improve the company's position and control. However, the chosen case studies prove to be extremely relevant to this topic and it was possible to collect significant information.
The literature is rich on cross-border acquisitions' process, giving as much importance to the pre- as to the post-acquisition phase. In this point, the study was not so concrete, since companies do not have inclination to share less

flattering information about, for instance, the integration phase and possible cultural clashes that may had arisen.

This is a multiple case study research, providing different perspectives on the cross-border border acquisitions and firm internationalisation. One limitation of this qualitative method is perhaps the difficulty in generalising to other cases.

Another limitation was the reduced number of samples collected. In this study, it was made one interview in each company, providing relevant data. However, there may be some more information that could be collected if there were more interviews, observation and time.

From a practical standpoint, the present study will be able to help companies interested in cross-border acquisitions by alerting them to the possible obstacles they might face, as well as the effect it possibly will have in their internationalisation.

The development of this academic research proposes a deepening of the knowledge associated to cross-border acquisitions and a few suggestions emerge that might prove useful for future researches.

It would be enriching to identify further factors of cross-border acquisitions capable of influencing the firm’s internationalisation. An interesting further research would be to replicate this study to other countries or other industry sectors. In this way, it would be possible to compare them and the founded factors to discover if these cases can be generalised. Finally, what would be the changes in the cross-border acquisitions’ process, taking into consideration the Brexit.

This study was conducted with the belief that raised some relevant questions, concerning a topic that, predictably, will merit the growing interest of companies of all sizes and fields.

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APPENDIX

APPENDIX I

PRESENTATION LETTER

Dear Sirs

____

____

Dear Sirs,

I am graduated in Management and I find myself finishing the Double Degree, divided in two phases; the first year, completed at the Católica Porto Business School, in the MSc in Business Economics and the second year, at Lancaster University (UK) in the MSc in International Business and Strategy, being necessary to present, until the end of October 2017, a dissertation of Master's degree.

The theme chosen is "Cross-border acquisitions and Internationalisation" and the objective of this project will be to know the internationalisation strategies adopted, the marketing strategies developed, the market segment to which it is directed, how they have followed the changes of the increasingly competitive and competitive market and have adapted to changing consumer needs and, finally, what was the effect of cross-border acquisitions in the internationalisation of the company.

The company ____________________ was selected, because it is a Portuguese company with relevant interest for the intended study.

Always respecting your right to anonymity and confidentiality, you will be asked for permission to disclose company data.

Similarly, consent will be requested to use the personal data of the study participants, if the companies allow some of their collaborators to be interviewed, as well as their acceptance to collaborate.

Otherwise, in respect for privacy and non-participation, anonymity will be used, as well as name of firm and fictitious personal names.

In this regard, it is attached my Curriculum Vitae and a declaration of authorization to use the data provided. It also follows an investigation, specifying the purpose of the investigation, in order to obtain answers to the research questions posed, trying to ensure the maximum reliability of the data (it follows the sealed response envelope).

I am very grateful for your deferment to my request and for the collaboration that they can give me in this project of Master's dissertation, waiting for your answer.

Best regards.

Sincerely

CONSENT DECLARATION

Company ____ with NIF ______________,
located in ____ declares that

☐ **authorizes** Carolina Rodrigues to use all data provided by our company, by company officials or their employees with permission to do so and who have access to your collaboration;

☐ **does not authorize** Carolina Rodrigues to use the data provided by our company, respecting the right to anonymity and confidentiality, and, for this purpose, must use the name of the firm and fictitious personal names;

With the purpose of elaborating a Master dissertation, with the topic of "Cross-border Mergers and Acquisitions", to obtain a Master's degree from the Católica Porto Business School and Lancaster University.

Date: ____________________________

Signature and company stamp

APPENDIX III

1. Identification and Characterisation of the Company

1.1. : Social designation:

1.2. Address:

1.3. Postcode: Town:

1.4. Social Capital: National – %; Foreigner – %

1.5. Start year of business activity:

1.6. Business sector:

1.7. Current number of employees:

1.8. Name of the person completing this questionnaire:

1.9. Role in the company:

1.10. E-mail:

2. Internationalisation Process

2.1. Start year of exports:

2.2. % of exports in the sales volume:

2.3. Number of foreign markets:

2.4. Core markets:

2.5. % of total international clients: %

3. What is the international activity of the company?

☐ Exports

☐ Foreign Direct Investment. How?

☐ Both (Exports and FDI)

☐ Others. Which ones?

4. What factors contribute to the selection of markets in internationalization?

☐ Language

☐ Historical and Cultural bonds

☐ Economic growth indexes

☐ Proximity

☐ Emergent markets

☐ Developed markets

☐ Presence of major and core competitors

5. United Kingdom

5.1. Start year of exports United Kingdom:

5.2. Year of the first foreign investment (acquisition) in the United Kingdom:

5.3. Number of UK subsidiaries:

5.4. Name and location of subsidiaries:

5.5. Activity of the same (production, distribution, etc.):

5.6. What were the motive(s) for the acquisition(s)?

☐ Personal (personal ambition, increased salaries through increased sales)

Specify.

☐ Strategic (extending markets, improving and obtaining new capabilities for the company and workers, increasing market power, acquiring a competitor, accessing new technologies.

Specify.

☐ Economic (diversification of risk, economies of scale, cost reduction)

Specify.

5.7. How did you get the opportunity to buy the British company(ies)?